

DOCUMENT RESUME

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[Pricing of a Fixed-Price Incentive Contract Awarded to RCA Corporation by the Goddard Space Flight Center]. PSAD-78-49; B-118720. December 9, 1977. 5 pp.

Report to Robert A. Frosch, Administrator, National Aeronautics and Space Administration; by Richard W. Gutmann, Director, Procurement and Systems Acquisition Div.

Issue Area: Federal Procurement of Goods and Services (1900); Federal Procurement of Goods and Services: Reasonableness of Prices Under Negotiated Contracts and Subcontracts (1904).

Contact: Procurement and Systems Acquisition Div.

Budget Function: General Science, Space, and Technology: Supporting Space Activities (255).

Organization Concerned: National Aeronautics and Space Administration: Goddard Space Flight Center, Greenbelt, MD; RCA Corp.: Astro Electronics, Princeton, NJ.

Congressional Relevance: House Committee on Science and Technology; Senate Committee on Commerce, Science, and Transportation.

A fixed-price incentive contract awarded to RCA Corporation, Astro Electronics, by the Goddard Space Flight Center provides for furnishing eight Television Infra-red Observation Satellite spacecraft buses, associated documents, spares components, and ground support equipment. The value of the contract through modification 16 was \$61,938,241 at the target price and \$65,078,437 at the ceiling price.

Findings/Conclusions: There are areas of potential overpricing pertaining to the contractor's decision to manufacture reaction control equipment instead of buying it as originally contemplated in modification 1 to the contract. Review of RCA's material cost estimates totaling \$8.6 million, which were included in its proposal for modification 1, showed that estimates used in negotiations were based on current data. With respect to modification 16, an RCA estimate to make reaction control equipment may have been overstated by as much as \$723,000 at target cost and \$850,000 at ceiling price. RCA, in its proposal, did not use lower supplier quotations which it had obtained and did not provide the National Aeronautics and Space Administration (NASA) with adequate information to determine the related effect on pricing. Also, at the time RCA submitted its estimate for negotiating a change in the contract scope, it did not inform NASA of additional lower price quotations which were available or that the price to the Air Force had been reduced.

Recommendations: The contracting officer should consider the findings of this review and determine whether the Government is entitled to a price adjustment under the contract. (3C)



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

04404

PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION

DEC 9 1977

B-118720

The Honorable Robert A. Frosch
Administrator, National Aeronautics
and Space Administration

Dear Dr. Frosch:

We have reviewed the pricing of fixed-price incentive contract NAS5-22330 awarded to RCA Corporation (RCA), Astro Electronics, Princeton, New Jersey, by the Goddard Space Flight Center, National Aeronautics and Space Administration (NASA). The contract provides for furnishing eight Television Infra-red Observation Satellite (TIROS) spacecraft busses, associated documents, spares components, and ground support equipment. The value of the contract through modification 16 was \$61,938,241 at the target price and \$65,078,437 at the ceiling price. The Air Force also bought satellites from RCA. The NASA and Air Force requirements were consolidated during negotiations to obtain savings resulting from the purchase of larger quantities.

This review was part of a nationwide review of the pricing of negotiated noncompetitive prime contracts. Individual contract reviews represent part of our efforts to monitor agencies' adherence to prescribed laws, regulations, and procedures in negotiating noncompetitive contract prices.

We identified areas of potential overpricing pertaining to the contractor's decision to manufacture reaction control equipment instead of buying it as originally contemplated in modification 1 to the contract. In addition to reviewing material costs pertaining to modification 1, we reviewed the cost proposal and negotiations supporting the execution of modification 16 to the contract which pertained to reaction control equipment.

Our review of RCA's material cost estimates totaling \$8.6 million, which were included in its proposal for modification 1, showed that estimates used in negotiations were based on current data. With respect to modification 16, we found that an RCA estimate to make reaction control equipment may have been overstated by as much as \$723,000 at target cost

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and \$850,000 at ceiling price. RCA, in its proposal, did not use lower supplier quotations, which it had obtained, and did not provide NASA with adequate information to determine the related effect on pricing. Also, at the time RCA submitted its estimate for negotiating a change in contract scope, it did not inform NASA of additional lower price quotations, which were available, and that the price to the Air Force had been reduced. All of these factors could have had an impact on the contracting officer's actions in negotiating a final price.

BACKGROUND

Contract NAS5-22330 was awarded to RCA on April 1, 1975, to fabricate and/or furnish nine sets of long-lead items (major subcontracts and materials) for TIROS spacecrafts. The total firm fixed price was \$16,600,000.

Modification 1, dated June 30, 1975, increased the scope of the basic contract to add the requirement for furnishing eight TIROS series spacecraft busses, associated documents, spares components, and ground support equipment. The type of contract was changed to fixed-price incentive and the target price was increased by \$45,792,000 to \$62,392,000. Included in the target price were additional items valued at \$6,390,700 which were to be negotiated later.

Modification 16, dated December 17, 1976, finalized these additional items at a target price of \$5,849,000. It also incorporated into the contract a number of changes in scope of work at a net increase in target price of \$75,100. Among the changes in scope was a \$40,000 reduction in target price for the fabrication of the reaction control equipment in-house.

Upon completion of the contract, the final price is to be established by (1) adding to the total target profit 25 percent of the difference by which the total final negotiated cost is less than the total target cost or (2) deducting from the total target profit 25 percent of the difference by which the total final negotiated cost is greater than the total target cost. The total final negotiated price shall not exceed the ceiling price.

The contractor executed Certificates of Current Cost or Pricing Data. A defective pricing clause was also incorporated into the contract.

OVERPRICING OF REACTION CONTROL
EQUIPMENT--MODIFICATION 16

Reaction control equipment is a component used in the TIROS. Its function is to place the satellite into final, precise orbit. The rocket engine assembly (thruster) is a major component of the reaction control equipment.

In its initial proposal dated March 26, 1975, to NASA for modification 1, RCA included the reaction control equipment as a subcontracted item. On June 13, 1975, NASA and the contractor concluded negotiations for modification 1 on this basis.

During a program-review meeting in August 1975, NASA was advised that RCA had decided to manufacture the reaction control equipment rather than to subcontract for it. NASA accepted the contractor's decision with the intention of making appropriate price adjustments later. On October 30, 1975, the contractor transmitted its proposal to NASA. The proposal, prepared as of June 12, 1975, included a unit price of \$30,555 for thrusters. The basis for the unit price was a quote from a prospective supplier, dated February 3, 1975, of \$29,100 plus a 5 percent economic adjustment factor.

The contractor separately provided NASA with vendor price quotations, which included 5 received in February 1975 for thrusters. Four quoted prices for thrusters were lower than the one used by RCA in its proposal--the lowest being \$14,539 a unit. RCA did not explain to NASA that the proposal for the reaction control equipment included an estimated unit price of \$30,555 for thrusters, which was \$16,016 higher than the lowest quote of \$14,539, nor did RCA offer any explanation as to why the source with the lowest quote was not being used.

As of October 30, 1975, the date of the contractor's letter to NASA submitting its proposed costs to make the reaction control equipment, the following events had taken place:

- During the period of October 17 to October 30, 1975, RCA had received four additional quotations for thrusters from two potential suppliers, one of which was the eventual supplier, ranging from \$13,542 to \$17,899. We found no evidence that this information was disclosed to NASA. The difference between the \$30,555 price used in the proposal and the lowest quote of \$13,542 was \$17,013 a unit.

--While negotiating with the Air Force, the contractor, on October 23, 1975, verbally advised the Air Force that the price for each thruster would be reduced to a range from \$13,000 to \$20,000 based on revised vendor costs. The contractor then revised its target price to the Air Force based on an estimated cost of \$20,000 per thruster instead of the \$30,555 initially proposed. However, when submitting its proposal to NASA, the contractor quoted a unit price of \$30,555 per thruster and did not reveal that the unit price to the Air Force had been reduced to \$20,000. The Air Force considers its total negotiated price to be based, in part, on a thruster unit price ranging from \$13,000 to \$20,000.

On November 25, 1975, the contractor purchased the thrusters at a unit price of \$17,536.

NASA did not consider it necessary to have the contractor's proposal audited. Instead, it relied on RCA's proposal when negotiating a reduction of \$40,000 which essentially represented the difference between the contractor's total estimate to buy the reaction control equipment and the total estimate to make it.

RCA executed a Certificate of Current Cost or Pricing Data on November 10, 1976, for modification 16 which included the proposal to manufacture the reaction control equipment. Data shown thereon was certified to be accurate, current, and complete as of October 20, 1976, the date negotiations were concluded. Modification 16 specified that the reaction control equipment fabrication in-house adjustment constituted a change in the scope of work.

The contracting officer informed us that he was not aware of the (1) impact of the February 1975 price quotations for thrusters, (2) existence of the four October 1975 quotations, and (3) revised proposal on thrusters to the Air Force from \$30,555 to \$20,000 a unit. The contracting officer also informed us that, had he been made fully aware of this information, he might have acted differently in negotiating a final price.

On the basis of our computation shown below, we believe that the price for the thrusters has been overstated by \$722,937 at target cost and \$849,884 at ceiling price.

Difference between high and low quotes	\$ 17,013
Number of units	<u>33.5</u>
Total	\$569,935
Add - Overhead	<u>153,062</u>
Overpricing at target cost	<u>\$722,937</u>
Overpricing at ceiling price	<u>\$849,884</u>

Contractor officials generally agreed with our findings and also informed us that an overstatement in the price could have occurred.

RECOMMENDATION

We recommend that the contracting officer consider the above finding and determine whether the Government is entitled to a price adjustment under contract NAS5-22330.

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We are sending copies of this report to the Director, Goddard Space Flight Center; the Office of Management and Budget; the Office of Federal Procurement Policy; and RCA. We are also sending copies of this report to the Senate and House Committees on Appropriations, the House Committee on Government Operations, and the Senate Committee on Governmental Affairs.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs, not later than 60 days after the date of the report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the report. We would appreciate receiving a copy of these statements.

Sincerely yours,



R. W. Gutmann
Director